

SUGAR ISLAND TOWNSHIP, CHIPPEWA COUNTY

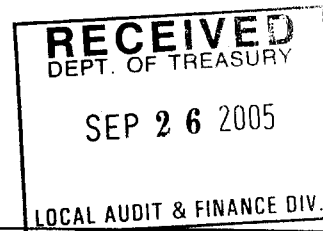
STATE OF MICHIGAN

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.



Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Sugar Island Township	County Chippewa
Audit Date March 31, 2005	Opinion Date August 23, 2005	Date Accountant Report Submitted to State: September 22, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Gillett, Halvorsen & Leonhardt, P.C.			
Street Address 478 W. Spruce St., P.O. Box 437	City Sault Ste. Marie	State MI	ZIP 49783
Accountant Signature 		Date 9/21/05	

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GILLETT, HALVORSEN & LEONHARDT, P.C.

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MEMBER OF THE MICHIGAN
ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE AMERICAN
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Township Board
Sugar Island Township
Sault Ste. Marie, MI 49783

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of Sugar Island Township as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of Sugar Island Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each Major Fund and aggregate remaining fund information of Sugar Island Township as of March 31, 2005, and the respective changes in financial position where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Sugar Island Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments as of April 1, 2004. This results in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis on pages 3-7 and the budgetary comparisons on pages 33-38 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States

of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purposed of forming opinions on the financial statements that collectively comprise the Sugar Island Township's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gillett Halvorsen & Leonhardt PC

Gillett, Halvorsen & Leonhardt, PC
Certified Public Accountants

August 23, 2005
Sault Ste. Marie, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUGAR ISLAND TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

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Within this section of Sugar Island Township annual financial report, the Township's management provides a narrative discussion and analysis of the financial activities of the Township for the fiscal year ended March 31, 2005. Sugar Island Township's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Township's primary government, unless otherwise noted.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Township also includes in this report additional information to supplement the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Township's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information of the Township's overall status. Financial reporting on this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the township-wide statement of financial position presenting information that includes all of the Township's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township as a whole is improving or deteriorating. Evaluation of the overall economic health of the Township would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of Township infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities which reports how the Township's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of this statement of activities is to show financial reliance of the Township's distinct activities or functions on revenues provided to the Township.

SUGAR ISLAND TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2005

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FUND FINANCIAL STATEMENTS

The Township has two kinds of funds:

Governmental funds are reported in the financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Township's governmental funds. The statements report short-term fiscal accountability focusing on the use of spendable resources available at the end of the year. These are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between the two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balance provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statements are included in the basic financial statements for the general fund. These statements and schedules demonstrate compliance with the Township's adopted and final revised budget.

Fiduciary funds such as the Memorial Trust Fund are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund Township programs. Fiduciary fund financial statements report similarly to proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which follows the notes to the financial statements.

SUGAR ISLAND TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2005

TOWNSHIP AS A WHOLE

The Township's assets exceed its liabilities by \$762,808 for the fiscal year reported.

Total net assets are comprised of the following:

- (1) Capital assets of \$321,261 include land, property and equipment net of accumulated depreciation.
- (2) Net assets of \$1,425 are restricted by constraints imposed from outside the Township such as grantors, laws or regulations.
- (3) Unrestricted net assets of \$440,122 represent the portion available to maintain the Township's continuing obligations.

The Township's governmental funds reported total ending fund balance of \$441,547 this year. This compares to the prior year ending fund balance of \$372,046 showing an increase of \$69,501 during the current year.

The Township implemented GASB-34 accounting procedures for the period beginning April 1, 2004, therefore a comparative analysis cannot be performed this year.

In a condensed format, the table below shows the net assets of the Township at March 31, 2005.

	Governmental Activities
Current assets	\$498,889
Restricted assets	1,425
Non-current assets	321,261
Total Assets	\$821,575
Current Liabilities	\$ 58,767
Net Assets	
Invested in capital assets	\$321,261
Restricted	1,425
Unrestricted	440,122
Total Net Assets	\$762,808
	=====

The Township reported a positive balance of \$762,808 in governmental activities with net assets increased by \$76,417.

SUGAR ISLAND TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2005

THE TOWNSHIP AS A WHOLE (CONTINUED)

The following table shows the activities of Sugar Island Township for the year ended March 31, 2005.

	Governmental Activities -----
Program Revenues	
Charges for services	\$ 69,041
Operating grants	9,806
Capital grants	-0-
General Revenues	
Taxes	315,183
Payments in lieu of taxes	209
Interest income	7,027
Other	10,991
Total Revenues	----- \$412,257
Program Expenses	
Legislative	\$ 6,897
General government	84,547
Public safety	104,541
Public works	125,118
Cultural and recreation	6,320
Other expenses	8,417
Total Expenses	----- \$335,840
Change in Net Assets	----- \$ 76,417 =====

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUND

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported an ending fund balance of \$441,547. Of this year end total, \$440,122 is unreserved indicating availability for continuing Township activities. Reserved fund balances include \$1,425 committed to public works.

SUGAR ISLAND TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2005

=====

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS (CONTINUED)

The general fund pays for all the Township's governmental services. These services were largely supported by property taxes and state shared revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Township Board amended the budget to take into account events during the year. The most significant changes were increases to expenditures for public safety and public works. The Township's actual expenditures exceeded the budgeted expenditures in nine instances for a total of \$18,748 for the year ended March 31, 2005.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2005, the Township had \$321,261 invested in a broad range of capital assets net of accumulated depreciation, including buildings and fire and ambulance equipment. In addition, the Township has invested significantly in roads within the Township. The roads are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Chippewa County Road Commission (along with the responsibility to maintain them).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Because of the impact of Proposal A, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of 5% or inflation. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions. Also, reductions in State Revenue sharing continues to impact the township.

CONTACTING THE TOWNSHIP'S MANAGEMENT

The financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Supervisor's office at: 6401 E. 1 1/2 Mile Road, Sault Ste. Marie, MI 49783 or (906) 635-9786.

BASIC FINANCIAL STATEMENTS

SUGAR ISLAND TOWNSHIP
STATEMENT OF NET ASSETS

March 31, 2005

		GOVERNMENTAL ACTIVITIES
ASSETS		
Current Assets		
Cash and equivalents	\$441,420	
Due from other funds	22,778	
Taxes receivable	34,691	
Total Current Assets	-----	\$498,889
Restricted Assets		
Cash and equivalents		1,425
Non-current Assets		
Buildings and equipment - net of depreciation	321,261	
TOTAL ASSETS	-----	\$821,575
		=====
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 7,740	
Due to other funds	16,336	
Deferred revenue - taxes receivable	34,691	
TOTAL LIABILITIES	-----	\$ 58,767
NET ASSETS		
Invested in capital assets	\$321,261	
Restricted for: Public works	1,425	
Unrestricted	440,122	
TOTAL NET ASSETS	-----	\$762,808
		=====

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF ACTIVITIES

For the year ended March 31, 2005

PROGRAM REVENUES

FUNCTIONS/PROGRAMS	CHARGES				NET
	EXPENSES	SERVICES	GRANTS	GRANTS	(EXPENSES) REVENUES
=====					
GOVERNMENTAL ACTIVITIES					
Legislative	\$ 6,897	\$ -0-	\$ -0-	\$ -0-	\$ (6,897)
General government	84,547	57,605	-0-	-0-	(26,942)
Public safety					
Fire	42,209	-0-	3,177	-0-	(39,032)
Ambulance	56,519	6,056	3,177	-0-	(47,286)
Other	5,813	4,820	784	-0-	(209)
Public works	125,118	560	2,668	-0-	(121,890)
Cultural and recreation	6,320	-0-	-0-	-0-	(6,320)
Other expenditures	8,417	-0-	-0-	-0-	(8,417)
TOTAL GOVERNMENTAL ACTIVITIES	\$335,840	\$69,041	\$ 9,806	\$ -0-	\$ (256,993)
=====					
CHANGE IN NET ASSETS					
Net (Expense) Revenue					\$ (256,993)
GENERAL REVENUES					
Taxes					315,183
Payments in lieu of taxes					209
Interest income					7,027
Other					10,991
TOTAL GENERAL REVENUES					\$ 333,410
CHANGE IN NET ASSETS					\$ 76,417
NET ASSETS - APRIL 1, 2004					686,391
NET ASSETS - MARCH 31, 2005					\$ 762,808
=====					

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

BALANCE SHEET - GOVERNMENTAL FUNDS

March 31, 2005

	GENERAL FUND	FIRE FUND	AMBULANCE FUND
ASSETS			
Cash and equivalents	\$130,139	\$ 74,824	\$ 29,608
Due from other funds	1,492	16 219	-0-
Taxes receivable	4,588	4,149	4,494
TOTAL ASSETS	\$136,219	\$ 95,192	\$ 34,102
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 4,511	\$ 503	\$ 912
Due to other funds	16,219	44	-0-
Deferred revenue - taxes receivable	4,588	4,149	4,494
TOTAL LIABILITIES	\$ 25,318	\$ 4,696	\$ 5,406
FUND BALANCES			
Restricted for public works	\$ 1,425	\$ -0-	\$ -0-
Unrestricted	109,476	90,496	28,696
TOTAL FUND BALANCES	\$110,901	\$ 90,496	\$ 28,696
TOTAL LIABILITIES AND FUND BALANCES	\$136,219	\$ 95,192	\$ 34,102

See accompanying notes to financial statements.

ROAD FUND	SOLID WASTE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
--------------	------------------------	--------------------------------	--------------------------------

\$110,867	\$ 87,923	\$ 9,484	\$442,845
-0-	5,067	-0-	22,778
15,898	5,562	-0-	34,691
-----	-----	-----	-----
\$126,765	\$ 98,552	\$ 9,484	\$500,314
=====	=====	=====	=====

\$ -0-	\$ 1,814	\$ -0-	\$ 7,740
73	-0-	-0-	16,336
15,898	5,562	-0-	34,691
-----	-----	-----	-----
\$ 15,971	\$ 7,376	\$ -0-	\$ 58,767

\$ -0-	\$ -0-	\$ -0-	\$ 1,425
110,794	91,176	9,484	440,122
-----	-----	-----	-----
\$110,794	\$ 91,176	\$ 9,484	\$441,547
-----	-----	-----	-----
\$126,765	\$ 98,552	\$ 9,484	\$500,314
=====	=====	=====	=====

SUGAR ISLAND TOWNSHIP

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

March 31, 2005

=====

Total Fund Balances - Governmental Funds	\$441,547
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$626,189, net of accumulated depreciation of \$304,928, are not financial resources and, therefore, are not reported in the fund. See note 4 for additional detail.	321,261
NET ASSETS OF GOVERNMENTAL ACTIVITIES	----- \$762,808 =====

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended March 31, 2005

	GENERAL FUND	FIRE FUND	AMBULANCE FUND
REVENUES			
Taxes	\$ 57,479	\$ 37,344	\$ 36,038
State grants	2,668	-0-	-0-
State shared revenues	47,134	-0-	-0-
Contributions from local units	-0-	3,177	3,177
Payments in lieu of taxes	209	-0-	-0-
Charges for services	5,221	-0-	6,056
Interest income	2,406	1,755	138
Rental income	10,070	-0-	-0-
Other	174	6,270	485
TOTAL REVENUES	\$125,361	\$ 48,546	\$ 45,894
EXPENDITURES			
Legislative	\$ 6,897	\$ -0-	\$ -0-
General government	83,126	-0-	-0-
Public safety	10,095	64,559	25,803
Public works	2,222	-0-	-0-
Cultural and recreation	2,867	-0-	-0-
Capital outlay	10,635	-0-	-0-
Other expenditures	8,417	-0-	-0-
TOTAL EXPENDITURES	\$124,259	\$ 64,559	\$ 25,803
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 1,102	\$ (16,013)	\$ 20,091
FUND BALANCES - APRIL 1, 2004	109,799	106,509	8,605
FUND BALANCES - MARCH 31, 2005	\$110,901	\$ 90,496	\$ 28,696

See accompanying notes to financial statements.

ROAD FUND	SOLID WASTE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$134,334	\$ 49,988	\$ -0-	\$315,183
-0-	-0-	784	3,452
-0-	-0-	-0-	47,134
-0-	-0-	-0-	6,354
-0-	-0-	-0-	209
-0-	560	-0-	11,837
690	1,913	125	7,027
-0-	-0-	-0-	10,070
-0-	-0-	4,062	10,991
-----	-----	-----	-----
\$135,024	\$ 52,461	\$ 4,971	\$412,257
 \$ -0-	 \$ -0-	 \$ -0-	 \$ 6,897
-0-	-0-	-0-	83,126
-0-	-0-	820	101,277
65,000	58,862	-0-	126,084
-0-	-0-	3,453	6,320
-0-	-0-	-0-	10,635
-0-	-0-	-0-	8,417
-----	-----	-----	-----
\$ 65,000	\$ 58,862	\$ 4,273	\$342,756
-----	-----	-----	-----
 \$ 70,024	 \$ (6,401)	 \$ 698	 \$ 69,501
40,770	97,577	8,786	372,046
-----	-----	-----	-----
\$110,794	\$ 91,176	\$ 9,484	\$441,547
=====	=====	=====	=====

SUGAR ISLAND TOWNSHIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended March 31, 2005

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Net change in Fund Balance - Governmental Funds	\$ 69,501
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Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by
which capital outlay of \$58,327 exceeded depreciation of
\$51,411 in the current period.

6,916

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 76,417
=====

See accompanying notes to the financial statements.

SUGAR ISLAND TOWNSHIP
BALANCE SHEET - AGENCY FUND

March 31, 2005

		TAX COLLECTION FUND
=====		=====
ASSETS		
Cash and equivalents		\$6,488
Due from other fund - fire		44
Due from other fund - road		73

TOTAL ASSETS		\$6,605
		=====
LIABILITIES		
Due to other fund - general		\$1,492
Due to other fund - solid waste		5,067
Due to other governmental unit - schools		46

TOTAL LIABILITIES		\$6,605
		=====

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND

March 31, 2005

=====	
	EXPENDABLE
	TRUST

	MEMORIAL
=====	
ASSETS	
Cash and equivalents	\$ 1,304
	=====
NET ASSETS	
Net assets held in trust for memorial fund	\$ 1,304
	=====

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND

For the year ended March 31, 2005

	EXPENDABLE TRUST	MEMORIAL
ADDITIONS		
Interest income	\$ 14	
Other - donations	25	
TOTAL ADDITIONS	\$ 39	
DEDUCTIONS		
Cemetery care		120
CHANGE IN NET ASSETS	\$ (81)	
NET ASSETS HELD IN TRUST FOR MEMORIAL FUND		
Beginning of year		1,385
End of year		\$ 1,304

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

=====

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Sugar Island Township, conform to the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Township:

A - REPORTING ENTITY

Financial Reporting Entity

Sugar Island Township is a regular law Michigan township located in the eastern portion of Michigan's Upper Peninsula.

The Township operates under an elected Board of Trustees and provides services to its residents in many areas including fire and ambulance protection, community enrichment and development, public works, parks and recreation, and general administrative services.

The Township, for financial purposes, includes all funds relevant to the operations of Sugar Island Township. The financial statements herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from Sugar Island Township.

B - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Sugar Island Township has no business-type activities or separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital or

SUGAR ISLAND TOWNSHIP

NOTE TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

=====

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Sugar Island Township has the general fund and special revenue funds for fire, ambulance, roads, solid waste, liquor law enforcement and community service.

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable - Current or Property Taxes

The Sugar Island Township property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in Sugar Island Township as of the preceding December 31st.

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)

Although Sugar Island Township 2004 ad valorem tax is levied and collectible on December 1, 2004, it is Sugar Island Township's policy to recognize revenue from the current tax levy in the subsequent year or the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 taxable valuation of Sugar Island Township totaled \$46,487,040, on which ad valorem taxes levied consisted of 1.5342 mills for Township operating purposes, 1.3946 mills for fire protection, 1.4953 mills for ambulance service, 5.3152 mills for road maintenance/improvement and 1.8597 mills for solid waste.

The Township reports the following major governmental funds:

General Fund

This is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Fund

This fund accounts for the millage revenue to support fire protection services in the Township.

Ambulance Fund

This fund accounts for the millage revenue to support ambulatory services in the Township.

Road Fund

This fund accounts for the millage revenue that maintain and improve roads within the Township.

Solid Waste Fund

This fund accounts for the millage revenue to support solid waste services in the Township.

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)

Additionally, the Township reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired. Deposits are recorded at cost.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

All trade and property tax receivables are shown as net of allowances for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items - All inventories, including the cost of supplies, are expensed when purchased. Payments made to vendors for services that will benefit periods beyond March 31, 2005, are recorded as prepaid items.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Grants and Other Intergovernmental Revenue - Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the respective grants.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

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NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control - The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Each March, the Township Board prepares a proposed operating budget for the fiscal period commencing April 1 and lapses on March 31. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through a resolution passed by the Township Board.
- d. Budgetary control is exercised at the Township Board level for the General Fund. Any revisions that alter the total expenditures of any fund (i.e., budget amendments) require approval by the Township Board. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Township does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Township Board during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General fund budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General and the major funds were modified throughout the year through various budget amendments.

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the Township Board level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Agency and Fiduciary Funds
	-----	-----
Cash and Cash Equivalents -		
Restricted	\$ 1,425	\$ -0-
Unrestricted	441,420	7,792
	-----	-----
Totals	\$442,845	\$ 7,792
	=====	=====

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds
	-----	-----
Bank deposits - checking	\$ 2,397	\$ 6,488
Bank deposits - savings	440,448	1,304
	-----	-----
Totals	\$442,845	\$ 7,792
	=====	=====

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the Township to deposit and invest in one or more of the following:

- Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

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NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in (a.)
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in (a.) through (g.) if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Township's deposits and investment policy are in accordance with statutory authority.

At year end, the carrying amount of the Township's primary and fiduciary deposits was \$450,637 and the bank balance was \$500,116. Of the bank balance, \$258,364, was covered by federal depository insurance according to FDIC regulations. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the Township. They are recorded in Township records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets being depreciated:				
Buildings	\$305,100	\$10,635	\$ -0-	\$315,735
Machinery and equipment	247,237	47,692	-0-	294,929
	-----	-----	-----	-----
Subtotal	\$552,337	\$58,327	\$ -0-	\$610,664
	-----	-----	-----	-----
Less accumulated depreciation for:				
Buildings	\$108,807	\$ 7,893	\$ -0-	\$116,700
Machinery and equipment	144,710	43,518	-0-	188,228
	-----	-----	-----	-----
Subtotal	\$253,517	\$51,411	\$ -0-	\$304,928
	-----	-----	-----	-----
Net Capital Assets Being Depreciated	\$298,820	\$ 6,916	\$ -0-	\$305,736
Land	2,725	12,800	-0-	15,525
	-----	-----	-----	-----
Governmental Activity Capital Total				
Capital Assets-Net of Depreciation	\$301,545	\$19,716	\$ -0-	\$321,261
	=====	=====	=====	=====

Depreciation expense was charged to programs of primary government as follows:

Governmental Activities:	
General Government	\$ 6,308
Public Safety	45,069
Public Works	34

Total Governmental Activities	\$ 51,411
	=====

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund receivable and payable balances at March 31, 2005 is as follows:

Interfund Receivable		Interfund Payable	
-----		-----	
General	\$ 1,492	General Fund	\$16,219
Fire	16,219	Fire	44
Solid Waste	5,067	Road	73
Tax Collection	117	Tax Collection	6,559

There were no interfund transfers for the year ended March 31, 2005.

NOTE 6 - RESTRICTED NET ASSETS AND CONTINGENCIES

The Township received \$2,668 under the Metropolitan Extension Telecommunications Right-of-Way Oversight Act (PA 48 of 2002, MCLS 484.3101 - 3120), also known as the "Metro Act". This represents the Township's portion of the fees being paid to the state by telecommunication providers for the Right-of-Way used within the Township. This funding is restricted in use to the maintenance of the aforementioned right-of-way. As of March 31, 2005, \$1,243 in expenditures have been made for this purpose. The restricted balance as of March 31, 2005 is \$1,425.

NOTE 7 - LEGAL COMPLIANCE

Excess of Expenditures over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act P.A. 2 of 1968 as amended (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Sugar Island Township's actual expenditures and budgeted expenditures have been shown on an activity basis. The approved budgets for Sugar Island Township for the budgeted funds were adopted to the activity level.

During the year, Sugar Island Township incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund			
Legislative			
Township Board	\$ 6,500	\$ 6,897	\$ 397

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

NOTE 7 - LEGAL COMPLIANCE (CONTINUED)

<u>Fund</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund (Continued)			
General Government			
Supervisor	\$ 7,100	\$ 7,335	\$ 235
Treasurer	13,400	16,496	3,096
Township	30,000	30,751	751
Public Works			
Street lights	-0-	463	463
Communications right of way	-0-	1,242	1,242
Cultural and Recreation			
Parks	2,700	2,767	67
Capital Outlay	-0-	10,635	10,635
Special Revenue Fund			
Solid Waste Fund			
Public works	57,000	58,862	1,862

NOTE 8 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as workmens compensation benefits provided to employees.

The Township participates in the Michigan Township Participating plan for general liability, property loss, automobile, professional, public official errors and omissions liabilities. This plan is a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township above the \$100 deductible amount. The Township pays an annual premium of \$16,396 for this plan. The plan has a maximum liability for general liability of \$3,000,000, wrongful acts of \$2,000,000 and automobile liability of \$1,000,000.

Therefore, the Township has no additional liabilities beyond the contribution made to the Michigan Township Participating Plan for general liability, property loss, automobile, professional, public official error and omissions liabilities as it is covered by insurance policies or reinsurance treaties obtained by the plan.

In addition, the Township has purchased commercial insurance for workmens compensation benefits.

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

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NOTE 8 - RISK MANAGEMENT (CONTINUED)

Settled claims for the insurance have not exceeded the amount of coverage in the past three years. There was no reduction in coverage obtained through insurance during the past year.

NOTE 9 - CONTINGENT LIABILITIES

The Township has received financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Township. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Township at March 31, 2005.

NOTE 10 - POSTEMPLOYMENT

Sugar Island Township does not provide any postemployment benefits and, therefore, no accrual has been recorded for these benefits as of March 31, 2005.

NOTE 11 - COMPENSATED ABSENCES

The Township does not have a vacation or a sick leave benefit policy and, therefore, no accrual has been recorded for these benefits as of March 31, 2005.

NOTE 12 - CHANGES IN ACCOUNTING PRINCIPLE

Effective March 1, 2004, the Township implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, Basic financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments Omnibus, which established new financial

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

NOTE 12 - CHANGES IN ACCOUNTING PRINCIPLE (CONTINUED)

reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

NOTE 13 - BUDGET AMENDMENT

Once approved, the Township may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Authorized budget amendments were approved as follows:

FUND	AMOUNT
-----	-----
General Fund	
Legislative	
Township board	\$ 1,500
General Government	
Supervisor	500
Treasurer	(2,600)
Clerk	3,000
Elections	(2,000)
Attorney and auditor	180
Public Safety	
Ambulance	500
Cultural and Recreation	
Parks	200
Library	100
Other Expenditures	
Insurance and bonds	900
Public Works	
Sanitation	1,510
Other Expenditures	
Insurance and bonds	4,500
Other	(11,545)

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2005

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NOTE 13 - BUDGET AMENDMENT (CONTINUED)

FUND	AMOUNT
-----	-----
Special Revenue Funds	
Fire Fund	
Public safety	\$30,000
Ambulance Fund	
Public safety	16,000
Road Fund	
Public works	27,000
Solid Waste Fund	
Public works	2,000

REQUIRED SUPPLEMENTAL INFORMATION

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the year ended March 31, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
REVENUES				
Taxes	\$ 53,300	\$ 53,300	\$ 57,479	\$ (4,179)
State grants	-0-	-0-	2,668	(2,668)
State revenue sharing	45,000	45,000	47,134	(2,134)
Payments in lieu of taxes	-0-	-0-	209	(209)
Charges for services	22,500	22,500	5,221	17,279
Interest income	2,200	2,200	2,406	(206)
Rental income	1,500	1,500	10,070	(8,570)
Other	1,500	1,500	174	1,326
TOTAL REVENUES	\$126,000	\$126,000	\$125,361	\$ 639
EXPENDITURES				
Legislative				
Township board	\$ 5,000	\$ 6,500	\$ 6,897	\$ (397)
General Government				
Supervisor	\$ 6,600	\$ 7,100	\$ 7,335	\$ (235)
Treasurer	16,000	13,400	16,496	(3,096)
Assessor	14,000	14,000	12,425	1,575
Clerk	6,000	9,000	7,953	1,047
Board of Review	2,000	2,000	1,816	184
Elections	7,000	5,000	4,951	49
Attorney and auditor	2,500	2,680	1,399	1,281
Township Hall	30,000	30,000	30,751	(751)
Total General Government	\$ 84,100	\$ 83,180	\$ 83,126	\$ 54
Public Safety				
Ambulance	\$ 4,800	5,300	\$ 5,102	198
Planning, zoning and land division	6,000	6,000	4,993	1,007
Total Public Safety	\$ 10,800	\$ 11,300	\$ 10,095	\$ 1,205

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)

For the year ended March 31, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
EXPENDITURES (CONTINUED)				
Public Works				
Highways, streets and bridges	\$ 1,000	\$ 1,000	\$ 517	\$ 483
Streetlights	-0-	-0-	463	(463)
Communications right of way	-0-	-0-	1,242	(1,242)
Total Public Works	\$ 1,000	\$ 1,000	\$ 2,222	\$ (1,222)
Cultural and Recreation				
Parks	\$ 2,500	\$ 2,700	\$ 2,767	\$ (67)
Library	-0-	100	100	-0-
Total Cultural and Recreation	\$ 2,500	\$ 2,800	\$ 2,867	\$ (67)
Capital Outlay	\$ -0-	\$ -0-	\$ 10,635	\$ (10,635)
Other Expenditures				
Insurance and bonds	\$ 5,100	\$ 6,000	\$ 4,990	\$ 1,010
Employee benefits	3,800	4,627	3,427	1,200
Other	3,200	93	-0-	93
Total Other Expenditures	\$ 12,100	\$ 10,720	\$ 8,417	\$ 2,303
TOTAL EXPENDITURES	\$115,500	\$115,500	\$124,259	\$ (8,759)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 10,500	\$ 10,500	\$ 1,102	\$ 9,398
FUND BALANCE - APRIL 1, 2004	109,799	109,799	109,799	-0-
FUND BALANCE - MARCH 31, 2005	\$120,299	\$120,299	\$110,901	\$ 9,398

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - FIRE FUND

For the year ended March 31, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
REVENUES				
Property taxes	\$ 31,980	\$ 31,980	\$ 37,344	\$ (5,364)
State grants	1,000	1,000	-0-	1,000
Contributions from local units	4,498	4,498	3,177	1,321
Interest income	1,886	1,886	1,755	131
Other	33,551	33,551	6,270	27,281
	-----	-----	-----	-----
TOTAL REVENUES	\$ 72,915	\$ 72,915	\$ 48,546	\$ 24,369
EXPENDITURES				
Public safety	\$ 50,000	\$ 80,000	\$ 64,559	\$ 15,441
	-----	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 22,915	\$ (7,085)	\$ (16,013)	\$ 8,928
FUND BALANCE - APRIL 1, 2004	106,509	106,509	106,509	-0-
	-----	-----	-----	-----
FUND BALANCE - MARCH 31, 2005	\$129,424	\$ 99,424	\$ 90,496	\$ 8,928
	=====	=====	=====	=====

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - AMBULANCE FUND

For the year ended March 31, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
REVENUES				
Taxes	\$ -0-	\$ -0-	\$ 36,038	\$ (36,038)
Contributions from local units	2,928	2,928	3,177	(249)
Charges for services	3,877	3,877	6,056	(2,179)
Interest income	182	182	138	44
Other	15,089	15,089	485	14,604
TOTAL REVENUES	\$ 22,076	\$ 22,076	\$ 45,894	\$ (23,818)
EXPENDITURES				
Public safety	\$ 10,000	\$ 26,000	\$ 25,803	\$ 197
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 12,076	\$ (3,924)	\$ 20,091	\$ (24,015)
FUND BALANCE - APRIL 1, 2004	8,605	8,605	8,605	-0-
FUND BALANCE - MARCH 31, 2005	\$ 20,681	\$ 4,681	\$ 28,696	\$ (24,015)

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - ROAD FUND

For the year ended March 31, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
REVENUES				
Taxes	\$ 56,928	\$ 56,928	\$134,334	\$ (77,406)
Interest income	1,208	1,208	690	518
TOTAL REVENUES	\$ 58,136	\$ 58,136	\$135,024	\$ (76,888)
EXPENDITURES				
Public Works				
Highway, streets and bridges	\$ 40,000	\$ 67,000	\$ 65,000	\$ 2,000
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 18,136	\$ (8,864)	\$ 70,024	\$ (78,888)
FUND BALANCE - APRIL 1, 2004	40,770	40,770	40,770	-0-
FUND BALANCE - MARCH 31, 2005	\$ 58,906	\$ 31,906	\$110,794	\$ (78,888)
	=====	=====	=====	=====

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SOLID WASTE FUND

For the year ended March 31, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
REVENUES				
Taxes	\$ 45,786	\$ 45,786	\$ 49,988	\$ (4,202)
Charges for services	540	540	560	(20)
Interest income	1,885	1,885	1,913	(28)
TOTAL REVENUES	\$ 48,211	\$ 48,211	\$ 52,461	\$ (4,250)
EXPENDITURES				
Public works	\$ 55,000	\$ 57,000	\$ 58,862	\$ (1,862)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (6,789)	\$ (8,789)	\$ (6,401)	\$ (2,388)
FUND BALANCE - APRIL 1, 2004	97,577	97,577	97,577	-0-
FUND BALANCE - MARCH 31, 2005	\$ 90,788	\$ 88,788	\$ 91,176	\$ (2,388)

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP
NON-MAJOR FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - OTHER GOVERNMENTAL FUNDS

For the year ended March 31, 2005

	COMMUNITY SERVICES BOARD	LIQUOR FUND	TOTAL (MEMORANDUM ONLY)
REVENUES			
State grants	\$ -0-	\$ 784	\$ 784
Interest earnings	123	2	125
Other	4,062	-0-	4,062
TOTAL REVENUES	\$ 4,185	\$ 786	\$ 4,971
EXPENDITURES			
Public safety	\$ -0-	\$ 820	\$ 820
Cultural and recreation	3,453	-0-	3,453
TOTAL EXPENDITURES	\$ 3,453	\$ 820	\$ 4,273
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 732	\$ (34)	\$ 698
FUND BALANCES - APRIL 1, 2004	7,992	794	8,786
FUND BALANCES - MARCH 31, 2005	\$ 8,724	\$ 760	\$ 9,484

See accompanying notes to financial statements.



GILLETT, HALVORSEN & LEONHARDT, P.C.

Certified Public Accountants

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JAMES E. HALVORSEN
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MEMBER OF THE MICHIGAN
ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE AMERICAN
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Township Board
Sugar Island Township
Sault Ste. Marie, MI 49783

We have audited the financial statements of Sugar Island Township for the year ended March 31, 2005, and have issued our report thereon dated August 23, 2005. Professional standards require that we provide you with the following information related to our audit.

AUDITOR'S RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter dated July 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Sugar Island Township are described in Note 1 to the financial statements.

During the year ended March 31, 2005, the Township did not initiate or change any of their significant accounting policies. The Township did implement GASB Statement No. 34, as amended by Statement No. 37, and Statement No. 38 effective April 1, 2004.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility of that future event affecting them may differ from management's current judgment;

2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS

As part of our audit, we considered the internal control of Sugar Island Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. Accordingly, we do not express an opinion on the system of internal control structure of Sugar Island Township taken as a whole. However, our procedures disclosed the following conditions that we would like to bring to your attention.

BUDGET

During the current year, expenditures exceeded the amount appropriated in nine instances. Therefore, the Township has not complied with P.A. 621 of 1978, Section 18(1), as amended, which states that a local unit of government shall not incur expenditures in excess of the amount appropriated. We recommend that budget categories should not be over expended and that the budget be monitored and amended as necessary during the year.

CASH AND INVESTMENTS

At year end, the Township had \$258,364 in deposits with financial institutions that were uninsured by federal depository insurance. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance. We recommend that the Township insure all funds.

SEGREGATION OF DUTIES

Separation of duties between persons who authorize transactions and persons who have control over the related assets does not exist to the extent possible in larger entities with several employees involved in the accounting process.

The least desirable accounting system is one in which the employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

The desired separation of duties cannot be achieved with a few employees involved. The careful and consistent oversight provided by the Township Board appears to offset the inability to separate various accounting functions and should be continued. The Township Board maintains monitoring of current operations. Operating results are reviewed monthly which provides significant oversight for the inspection of any irregularities and discrepancies. The cost for additional staff to enable separation of duties is likely not economically justified and therefore, the Township Board's oversight is assisting in this internal control function. Our finding is intended only to point out that this element of internal control separation of duties does not, and at present, cannot exist.

In addition to the above reportable conditions, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency.

This report is intended solely for the information and use of the Township Board.

Gillett Halvorsen & Leonhardt PC

Gillett, Halvorsen & Leonhardt, P.C.
Certified Public Accountants

August 23, 2005
Sault Ste. Marie, Michigan